

# Bill Summary

**COMMITTEE:** Banking and Insurance

**DATE:** 5/31/13

**PRIME SPONSOR:** Browne

**BILL NO:** SB975

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**PRINTER'S NO:** 1126

## **A. Synopsis:**

SB975 amends titles 7 (Banks and Banking) and 18 (Crimes and Offenses) to provide for the establishment of a micro loan program.

## **A. Summary:**

SB975 has several key provisions which include:

- Loan Length Limitations - three strictly regulated tiers of loans are established:
  - Short term loans (between 14 and 60 days in length) are limited to eight consecutive successful loans after which the borrower can enter into an extended short term loan or be barred from getting further short term loans from any licensee for the combined term of the short term loans or 90 days, whichever is less. (Section 5131)
  - Extended short term loans must have terms between 61 and 120 days. (Section 5132)
  - Micro loans can have terms up to one year. (Section 5133)
- Interest Rate - Section 5113 limits all loans to an interest rate of 28% simple interest per year with the interest rate to be calculated in compliance with 15 U.S.C. § 1606 which governs the determination of annual percentage rate.
- Allowable Fees - Sections 5131, 5132, and 5133 provide for an application fee of 5% of the loan amount and, if the loan is approved, a processing fee of 5%. Section 5133 adds an annual fee of \$95 for Micro loans of one year in length. The Official Staff Interpretations of the Federal Reserve Board and Final Rule - Part 701 of the National Credit Union Administration exempt application fees charged to all consumers who apply for a loan, regardless of whether credit is actually extended, from the Annual Percentage Rate calculation.
- Balloon Payments - Section 5114 establishes that loans are to have, as far as is practicable, repayment terms of substantially equal installment amounts and time periods. A loan to a consumer whose repayment period spans multiple regular occurrences of income must have repayment over substantially equal time periods and for substantially equal amounts consistent with those occurrences of income. Loans in excess of 30 days are prohibited from having a single balloon payment.
- Explicit Provisions for Active Military Members, Their Families, and Military Veterans - Section 5122 establishes that the Federal Military Lending Act and

any subsequent federal laws and regulations govern lending to active military members, guard and reserve members called to active duty and their eligible family members with the added explicit protection that this applies regardless of the active serviceperson's domicile or permanent home of record. In addition, although veterans are not covered under the federal law, this section would require lenders to provide written information to veterans of alternative sources of assistance financial and otherwise.

- Real Time Third Party Verification System - Section 5121 empowers the Department of Banking with the authority to contract for a third party real time verification system funded by a \$5 fee established under Section 5120. The system assures that all of the terms of the law are adhered to by licensees.
- Maximum Loans Sizes - Section 5116 establishes a maximum cap on indebtedness of 25% of gross monthly income for both short term and extended short term loan products and a maximum payment of 25% of gross monthly income for micro loans.
- Mandatory Credit Counseling - Section 5117 establishes an entitlement for all borrowers to consumer credit counseling by an unaffiliated third party designated by the Pennsylvania Housing Finance Agency.
- No Rollovers - Section 5115 absolutely prohibits a lender from rolling over an existing loan for a fee.
- Right of Rescission - Section 5116 allows consumers to rescind a loan on the next day with return of all interest charges and fees.
- No Same Day Loans - Section 5116 prohibits a consumer from applying for a loan on the same day that they have repaid a prior loan.
- Extended Payment Plan - Section 5128.1 gives the borrower the option to request and receive an extended payment plan for short term loans at no extra cost.
- Comprehensive Licensing - Subchapter D vests the Department of Banking with extensive state-of-the-art licensing including background check requirements, industry-wide examinations of business practices, extensive rule-making authority and a wide array of criminal and civil sanctions including license revocations.